

The next orthopaedics megamerger



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The orthopaedics sector has seen several sizeable mergers over the past decade. Might it see more?

Stryker's decision to pounce on Wright Medical has reignited talk of further consolidation in the orthopaedics sector. If Stryker manages to close the deal with antitrust authorities demanding minimal divestments, other groups might want to build scale themselves as a defensive move against their newly expanded rival.

Several of the leading groups in this segment, such as Johnson & Johnson and Medtronic, have made major acquisitions recently in the closely related area of surgical robotics. If their M&A firepower is temporarily damped by these moves the next big buy might be done by a company that has in the past been spoken of as a target: Smith & Nephew.

S&N has a box-fresh chief executive, Roland Diggelmann, following [last week's departure of Namal Nawana](#). It might take some time for Mr Diggelman to get to grips with his new role, but he will surely continue the group's policy - restated last week on S&N's third quarter earnings call - of seeking inorganic growth.

It will likely take several months before the UK firm makes another big move, though. As well as new management needing to settle in the company has to continue the integration of its last significant purchase - that of the wound healing specialist Osiris Therapeutics for \$660m ([Smith & Nephew buys Osiris and insists it has appetite for more, March 13, 2019](#)).

Top 15 orthopaedics companies

Company	2019 market cap (\$m)	SP change YTD	WW ortho sales 2019e	WW ortho sales 2024e	CAGR
Johnson & Johnson	345,302	2%	8,408	9,637	+3%
Stryker	79,654	36%	6,964	9,188	+6%
Zimmer Biomet	28,379	33%	7,546	8,690	+3%
Medtronic	145,665	22%	3,032	3,407	+2%
Smith & Nephew	18,809	15%	2,204	2,618	+4%
Wright Medical*	2,788	(19%)	927	1,452	+9%
Nuvasive	3,673	42%	1,023	1,334	+5%
Globus Medical	5,154	20%	776	1,152	+8%
Bonesupport	183	68%	236	955	+32%
Essity	22,102	39%	608	661	+2%
Orthofix Medical	791	(21%)	474	633	+6%
Invivo Therapeutics	4	(72%)	-	380	n/a
Össur	3,172	59%	308	363	+3%
Microport Scientific	1,721	9%	250	351	+7%
Conmed	3,110	71%	277	350	5%

*[Wright is to be acquired by Stryker](#). Source: EvaluateMedTech.

Which other ortho players are in the frame as potential buyers? Not Zimmer Biomet, according to its management. The company said yesterday that its core business is stable, and it is paying down some of its debt, putting it in solid shape to go shopping. But chief exec Bryan Hanson admitted that Zimmer does not have “the best track record when it comes to M&A”, and said that for now, its preference is for tuck-in acquisitions to boost its standing in areas it is already familiar with.

That said, Mr Hanson added that “if the right asset that was larger or more diversified than what I’m referencing came along, it had strategic fit, it had good return metrics, we would certainly look at it.”

As for the other two big players, J&J’s \$3.4bn acquisition of Auris Health and Medtronic’s \$1.6bn takeout of the spine-focused group Mazor Robotics show that while these companies are determined to grow their orthopaedic franchises, they are taking a slightly tangential tack. The theory is that hospitals buying surgical robots will be able to do more surgeries more quickly, including orthopaedic procedures, boosting ortho companies’ implant sales.

The chances of J&J or Medtronic buying one of the other large orthopaedics groups in the near future are slim, but it would be unwise to rule it out entirely.

Place your bets

If any of these large groups does want to make a game-changing strategic move to echo Stryker’s, it has a wealth of targets to choose from. Earlier this year Nuvasive, which makes spinal implants and products to lengthen patients’ legs, was rumoured to be marked for a takeover by Smith & Nephew. And it is a tempting target: its sales are large enough to make a meaningful difference even to the biggest ortho players, and its 5% growth rate is attractive.

But it has been doing nicely on the stock market, and with a market cap of \$3.7bn it is 42% more expensive now than at the beginning of the year. There are limits to how much the big groups are willing to pay.

Globus Medical might be a better bet, as it is growing faster than Nuvasive, although it is a pricier target. The company offers biologics and trauma products alongside its core spinal offering, and might work nicely alongside Medtronic’s Mazor system.

But Globus already has a robotic arm and navigational software for use in spinal surgeries, ExcelsiorGPS, which

might well mean a deal with Medtronic would run into problems with the competition authorities, necessitating sell-offs.

A move for Bonesupport might not be unwise; despite its impressive 68% share ramp this year the group still looks like a bargain. It is a very focused business, selling its Cerament range of injectable drug-eluting bioceramic grafts which are designed to encourage regrowth of bone. The sellside forecasts its 2024 revenues at just shy of \$1bn, and if a buyer acts promptly the transaction could still count as a tuck-in deal.

Microport Scientific also looks buyable, though it is by no means a pure-play orthopaedics company. Nearly 70% of its sales are from cardiovascular devices, with its ortho unit making up a quarter of its revenues. But Microport is based in China, and could offer a buyer an easy route into a fast-growing market.

As the succession of surgical robotics transactions over the past few years shows, medtech megamergers tend to happen in waves, one big deal triggering another as competitors struggle to keep up with their peers. Many analysts are in agreement that the ortho sector could stand more consolidation, with room for one or two more sizeable transactions. The Stryker-Wright deal might yet have several echoes.

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